

RAMOCO INC.

STATEMENT OF EXPENSES AND DEFICIT

for the six months ended 30 June 1977

(Expressed in U.S. dollars)

(Unaudited)

Exploration and Development Expenses . .	\$ 258,372
Administrative and General Expenses . . .	62,593
Net Loss	320,966
Deficit, beginning of period	193,084
Deficit, end of period	<u>\$ 514,050</u>
Loss Per Share	
Net for the period	17.7¢

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the six months ended 30 June 1977

(Expressed in U.S. dollars)

(Unaudited)

Use of Funds

Operations

Loss for the period	\$ 320,966
Less: Items not requiring an outlay of funds	
Accrued interest on debenture	(32,830)
Abandoned leases	(29,820)
Amortization expense	(358)
Funds used in operations	257,958
Acquisition of interests in oil and gas leases	47,687
Decrease in Working Capital	305,645
Working Capital (Deficiency), beginning . .	182,745
Working Capital (Deficiency), ending . . .	<u>\$ 488,390</u>

AR36

RAM PETROLEUMS LIMITED

(Incorporated under the law of Ontario)

Executive and Suite 520
Head Office The Simpson Tower
401 Bay Street
Toronto, Ontario M5H 2Y4

District Office 210 Oxford Street East
London, Ontario N6A 1T6

Directors HOWARD R. BARCLAY
CYRIL J. HADLEY
RALPH W. McDOWELL
ROBERT J. OPEKAR
R. BREDIN STAPELLS, Q.C.
DONALD C. WEBSTER

Officers ROBERT J. OPEKAR, President
CYRIL J. HADLEY,
Vice-President (Exploration)
ROGER BARTON, Secretary
ROBERT O. COCHRANE, Supervisor
of Exploration and Production

Transfer Agents THE METROPOLITAN TRUST
COMPANY
Toronto, Ontario
THE BANK OF BERMUDA LIMITED
Hamilton, Bermuda

Auditors JOHNSON, RICKARD & CO.
Toronto, Ontario

Banker THE BANK OF NOVA SCOTIA
44 King Street West
Toronto, Ontario

General Counsel STAPELLS & SEWELL
Toronto, Ontario

Ram Petroleums Limited
Ramoco Inc.

*Interim Report
For the Six Months
Ended 30 June 1977*

To the Shareholders:

In Rich County, Utah, Hogback Ridge #20-1, which was drilled to 10,910' T.D., has been designated as a new field discovery in the Dinwoody formation of Triassic age. The Phosphoria formation of Permian age and the Wells-Weber formation of Pennsylvanian age also may be producing zones. About 685' of possible gross fracture or original porosity will have to be evaluated through production testing. The operator, American Quasar Petroleum Co. of New Mexico, has made an application to space 11,850 acres for the new field. Ramoco's interest in the well is 6.88% because deviation has resulted in the discovery being located in Section 21 instead of 20, where Ramoco's interest is 3.88%.

A second well, Hogback Ridge #28-1, in which Ramoco's interest is 8.73%, has started drilling a little over a mile south south-east of the discovery. A larger rig will enable the operator to drill to an estimated total depth of 14,500' in order to test the Madison formation of Mississippian age in addition to formations encountered in Hogback Ridge #20-1.

In Dawn Township, Lambton County, Ontario, three crest gas wells have been drilled at Edys Mills, all encountering excellent quality reef reservoir at about 1,630'. Because of high pressures only about 130' of penetration was achieved with cable tool equipment. A fourth well drilling in a flank location struck gas-bearing reef at 1,763', 133' below crest. Twenty-seven feet of gas section was penetrated. At 1,790' an oil zone was encountered and 44' of gross oil section is indicated. Drilling is continuing to further evaluate the reefal section.

Oil and gas lease acquisitions in Ontario continued at a high rate. About 102,000 acres were under lease at June 30, 1977, as opposed to 75,600 acres a year earlier. About \$1,215,000 has been spent to date during 1977 in the Ontario program, a substantial increase over the same period of 1976.

Sales in Michigan were curtailed due to an explosion which impaired a gas processing plant. Some Michigan properties have still not been placed on production. As a result total income for the first half of 1977 showed only a small increase over the comparable period of 1976.

Distribution of Ramoco shares to Ram shareholders has been held up by objections made by the S.E.C. to the prospectus submitted. A full response to the objections will be filed soon.

R. J. OPEKAR,
President

August 16, 1977

RAM PETROLEUMS LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

for the six months ended 30 June 1977

(Unaudited)

	1977	1976
Income		
Oil income	\$ 414,027	\$ 355,709
Gas income	110,190	118,700
Royalties	239,135	231,243
	<u>763,352</u>	<u>705,652</u>
Less: direct expenses ...	61,795	59,281
	<u>701,557</u>	<u>646,371</u>
Other income	51,834	86,514
Total Income	<u>753,391</u>	<u>732,885</u>
Exploration and Development Expenses	529,643	791,430
Administrative and General Expenses	221,469	188,766
Total Expenses	<u>751,112</u>	<u>980,196</u>
Income (Loss) Before Under-noted items	<u>2,279</u>	<u>(247,311)</u>
Profit (Loss) on sale of securities	—	41,877
Profit on sale of capital assets	6,789	2,649
Provision for decline in market value of marketable securities	(49,026)	72,613
	<u>(42,237)</u>	<u>117,139</u>
Income (Loss) Before Income Taxes	(39,958)	(130,172)
Reduction in deferred income taxes	—	155,000
Net Income (Loss) for the Period	<u>\$ (39,958)</u>	<u>\$ 24,828</u>
Earnings (Loss) Per Share		
before extraordinary items	—	(6.8)¢
after extraordinary items	(1.1)¢	0.7 ¢

RAM PETROLEUMS LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the six months ended 30 June 1977

(Unaudited)

	1977	1976
Source of Funds		
Operations		
Income (loss) for the period	\$ (39,958)	\$ 24,828
Add: Items not requiring an outlay of funds;		
Amortization and depreciation ...	225,852	161,958
Abandoned interest and claim costs	33,540	110,000
Deferred taxes (reduction)	—	(155,000)
	<u>219,434</u>	<u>141,786</u>
Increase in minority interest	3,966	—
Exercise of employees' stock option	47,727	—
Sale of capital assets	—	7,425
Decrease in long-term portion of debenture	—	1,500,000
	<u>271,127</u>	<u>1,649,211</u>
Application of Funds		
Increase in long-term investments	—	3,882
Capital assets acquired	754,128	1,177,222
Increase in other assets ...	2,249	30,038
Decrease in minority interest	—	5,679
Common shares acquired	—	30,647
Accrued interest on long-term debenture, 6% due 1984-86 — Ramoco Inc.	32,830	—
Decrease in premium on issue of shares	7,149	—
	<u>796,356</u>	<u>1,247,468</u>
Increase (Decrease) in Working Capital	(525,229)	401,743
Working Capital (Deficiency), Beginning	377,485	449,325
Working Capital (Deficiency), Ending	<u>\$ (147,744)</u>	<u>\$ 851,068</u>

STATEMENT OF LOSS AND DEFICIT

for the six months ended 30 June 1978

(Expressed in U.S. dollars)

(Unaudited)

	1978	1977
Gas Income	\$ 44,755	\$ —
Expenses		
Exploration and Development	447,744	253,506
District office	14,398	4,867
Head office	31,513	27,411
Interest	56,583	35,182
Total expenses	550,238	320,966
Net Loss	505,483	320,966
Deficit, beginning of period ...	824,280	193,084
Deficit, end of period	1,329,763	514,050
Loss per share	28¢	18¢

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the six months ended 30 June 1978

(Expressed in U.S. dollars)

(Unaudited)

Use of Funds		
Operations		
Loss for the period	505,483	320,966
Less: Items not requiring an outlay of funds		
Accrued interest on debenture	(32,604)	(32,830)
Abandoned leases	(90,815)	(29,820)
Abandoned development costs	(148,104)	—
Depreciation and amortization	(616)	(358)
	233,344	257,958
Acquisition of oil and gas leases	40,582	47,687
Deferred development costs	146,394	—
Decrease in working capital	420,320	305,645
Working Capital Deficiency, beginning of period	893,885	182,745
Working Capital Deficiency, end of period	\$ 1,314,205	\$ 488,390

AR36

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Executive and Head Office	Suite 520 The Simpson Tower 401 Bay Street Toronto, Ontario M5H 2Y4
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Officers	ROBERT J. OPEKAR, President CYRIL J. HADLEY, Vice-President, Exploration ROGER BARTON, Secretary JOHN S. GRAY, Treasurer ROBERT O. COCHRANE, Supervisor of Exploration and Production
Transfer Agents	THE METROPOLITAN TRUST COMPANY Toronto, Ontario THE BANK OF BERMUDA LIMITED Hamilton, Bermuda
Auditors	JOHNSON, RICKARD & CO. Toronto, Ontario
Banker	THE BANK OF NOVA SCOTIA Main Branch Toronto, Ontario
General Counsel	STAPPELLS & SEWELL Toronto, Ontario

Ram Petroleums Limited
Ramoco Inc.

Interim Report
For the Six Months
Ended 30 June 1978

To the Shareholders:

Income for the six months ended June 30, 1978, was \$955,206, up 29% from income of \$740,027 for the comparable 1977 period. Higher income is projected for the balance of this year.

The Company has expanded its London district office and its geological and land personnel in order to increase its exploration and development efforts. The resulting added costs coupled with higher interest costs due to increased borrowings caused the small net loss for this period.

In Ontario the seismic survey and lease acquisition programs have been stepped up. The Company now holds about 88,334 acres in Lambton County and 46,301 acres elsewhere in Ontario.

In Utah Ramoco Inc. participated in a development well, Hogback Ridge #17-1, which was abandoned at 10,732', when mechanical problems were encountered in an unexpected heavily faulted zone.

Houston Oil & Minerals Corporation is planning to drill an 8,500' Phosphoria test in Lincoln County, Wyoming, adjacent to the Utah border. Certain Ramoco leases in Utah are to be contributed to a pool of 3,023 acres surrounding the well. Because of its contribution Ramoco will have a 2.03% interest, after payout, in the pooled acreage and well at no cost.

R. J. Opekar
President

RAM PETROLEUMS LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

for the six months ended 30 June 1978

(Unaudited)

	1978	1977 (Restated)
Income		
Oil	\$ 471,035	\$ 414,027
Gas	178,487	110,190
Royalties	305,960	239,135
	955,482	763,352
Less: direct expenses	77,332	75,159
	878,150	688,193
Other income	77,056	51,834
	955,206	740,027
Expenses		
Exploration and development	633,787	468,495
District office	119,005	51,463
Head office	118,750	117,781
Interest	146,374	52,225
Total expenses	1,017,916	689,964
Income (Loss) Before Undernoted Items	(62,710)	50,063
Profit on sale of capital assets	—	6,789
Adjustment in carrying value of marketable securities	42,483	(49,026)
	42,483	(42,237)
Net Income (Loss) for the Period	\$ (20,227)	\$ 7,826
Earnings (Loss) per Share		
Before extraordinary items ..	(1.7)¢	1.4¢
After extraordinary items ...	(0.5)¢	0.2¢

RAM PETROLEUMS LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the six months ended 30 June 1978

(Unaudited)

	1978	1977 (Restated)
Source of Funds		
Operations		
Income (loss) for the period	\$ (20,227)	\$ 7,826
Add: Items not requiring an outlay of funds:		
Abandoned well costs and leases	112,614	33,540
Amortization and depreciation	103,842	80,431
Interest accrued on debenture	(36,168)	(32,830)
	160,061	88,967
Sale of capital stock	50,520	40,578
Increase in minority interest	1,105	3,966
	211,686	133,511
Application of Funds		
Purchase of capital assets ...	587,577	656,491
Increase in other investments	5,474	2,249
Advances to affiliates	9,262	—
	602,313	658,740
Decrease in Working Capital .	390,627	525,229
Working Capital (Deficiency)		
Beginning	(1,401,363)	377,485
Working Capital (Deficiency)		
Ending	\$(1,791,990)	\$(147,744)

August 17, 1978

Ram Petroleums Limited

Annual Report 1978



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Donald C. Webster

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The Metropolitan Trust Company
Toronto, Ontario
The Bank of Bermuda Limited
Hamilton, Bermuda

Officers

Robert J. Opekar
President

Cyril J. Hadley
Vice-President of Exploration

Roger I. Barton
Secretary

John S. Gray
Treasurer

Robert O. Cochrane
*Supervisor of Exploration
and Production*

Auditors

MacGillivray & Co.
Toronto, Canada

Banker

The Bank of Nova Scotia
Main Branch
Toronto, Canada

General Counsel

Stapells & Sewell
Toronto, Canada

REPORT TO SHAREHOLDERS

Your company is presently considering a proposal from an Ontario gas distributor whereby it will advance a substantial amount interest free and pay for a very large drilling program. The advance and the cost of drilling will be applied to future purchases of Ram's storage rights in Lambton County, Ontario. The proposal requires that the gas distributor purchase natural gas at prevailing market prices in order to deplete any suitable reservoir to the point at which an estimate of the ultimate storage capacity can be calculated. The storage rights will be sold when reservoir volume is determined. The agreement will be subject to periodic review. If this proposal is accepted your company's working capital position will be improved greatly. More income will be available for exploration as opposed to debt service. You will be advised of the outcome of these discussions. In addition in order further to improve your company's working capital position, Ram Inc. has secured a term loan of U.S.\$3.5 million which it will use to repay loans and interest to its parent.

Ram's consolidated income less direct expenses and royalties was \$2,142,711 for 1978, up 52.3% over \$1,407,048 for the previous year. Consolidated loss for 1978 was \$272,822 compared with a loss of \$1,765,424 in 1977. This was a disappointing performance. Development and production at the Corey East oil pool has been held up by a dispute regarding title to a portion of the field. Management is confident that the company will be successful in this action. The Edys Mills gas field remained shut in mainly because Ram is unwilling to sign a contract containing penalty clauses tied to penalties Ontario gas distributors may face due to their inability to take Western Canadian gas under their contracts with TransCanada Pipelines Limited. Independent Ontario gas producers should not be penalized in such circumstances and should always receive preferential treatment. They produce less than half of one percent of the gas consumed in Ontario and their production should not bear the cost of overbuying which is a consequence of the purchase, mostly from Western Canada, of the other 99½% of gas consumed in Ontario.

Ramoco Inc., an affiliate company, had net revenue of \$230,969 in 1978 compared with none in the previous year. Very substantial exploration and development costs, including some participation in two unsuccessful development wells at Hogback Ridge, Rich County, Utah, resulted in a net loss for 1978 of \$1,056,201 compared with a net loss of \$631,196 for the previous year. Nearly all income was from Shell Valentine # 1-18 located in Bear Lake Township, Manistee County, Michigan. This well is presently not producing but will be recompleted shortly. Before the end of 1979 Ramoco should be receiving its 6.88% share of the working interest income of Hogback Ridge # 20-1.

Elsewhere in this report you are provided with details regarding some very important developments which affect various oil and gas leases and permits held by your company and its affiliate, Ramoco. Minnow Hill Unit # 29-1 presently drilling at 13,275' in Rich County, Utah, will test a structure located about 8 miles west of the multiple pay, prolific Whitney Canyon-Carter Creek gas field, which may contain between 5 and 8 trillion feet of gas. Ramoco is carried until payout and thereafter will have a 15.5% working interest in this well, around which it has good land position. Negotiations are underway to farm out about 230,000 acres in Beaver and Iron Counties, Utah, which may lead to substantial expenditure on exploration on these leases. This summer Aquitaine Co. of Canada and partners will drill, at an estimated cost of about \$25.4 million, an important exploratory offshore well located only 24 miles northeast of your company's prospect in the Davis Strait, offshore Baffin Island. Drilling of a number of good targets will take place in both Ontario and Michigan in 1979.

Regrettably the company was unsuccessful in its latest filing with the Securities and Exchange Commission for approval to distribute Ramoco shares to Ram shareholders. Because Ramoco has not yet made enough discoveries to be self-sufficient, Ramoco's auditors qualified their certificate of its financial statements. The S.E.C. would not accept a qualified certificate. The issue as to whether another filing will be made is presently under review.

June 18, 1979

R. J. OPEKAR,
President.

RAM PETROLEUMS LIMITED AND AFFILIATED COMPANIES

PRINCIPAL EXPLORATION AREAS

1. **ARCTIC ISLANDS** (Sverdrup Basin)
Federal oil and gas exploration permits
72,491 acres, Ram 75%, Forest Oil 25%
107,504 acres, Ram 75%, Imperial Oil 25%
2. **OFFSHORE BAFFIN ISLAND** (Saglek Basin)
Federal oil and gas exploration permits
120,592 acres, 100%
3. **SASKATCHEWAN**
Lignite coal leases
2,880 acres, 100%
4. **ROCKY MOUNTAIN REGION**
Utah (Green River and Great Basins)
Petroleum leases
243,663 acres, 100% Ramoco Inc.
21,140 acres, 31% Ramoco Inc.
50,392 acres, 15.5% Ramoco Inc.
Nevada (Great Basin)
Petroleum leases
2,506 acres, 100% Ramoco Inc.
Wyoming (Green River Basin)
Petroleum lease
640 acres, 100% Ramoco Inc.
5. **MICHIGAN** (Michigan Basin)
Petroleum leases
6,194 net acres, 40,801 gross acres, Ram Petroleums Inc.
29,338 net acres, 50,346 gross acres, Ramoco Inc.
6. **ONTARIO** (Michigan Basin)
Petroleum leases
148,937 acres, 100%
7. **OFFSHORE NOVA SCOTIA** (Scotia Shelf)
Provincial oil and gas exploration permits
666,970 acres, 100%

UTAH

County	Acres	Ramoco %
1 Beaver	86,867	100
2 Box Elder	10,494	100
3 Cache	7,043	100
4 Iron	134,564	100
5 Millard	800	100
6 Rich	21,140	31
	50,392	15.5

WYOMING

7 Uinta	640	100
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OVERTHRUST BELT IMPORTANT OIL and GAS FIELDS

- A Amoco gas-condensate discovery —
Ryckman Creek Field and
Whitney Canyon Field
- B American Quasar oil discovery —
Pineview Field
- C Amoco gas discovery —
Yellow Creek Field
- D American Quasar gas discovery —
Hogback Ridge Field

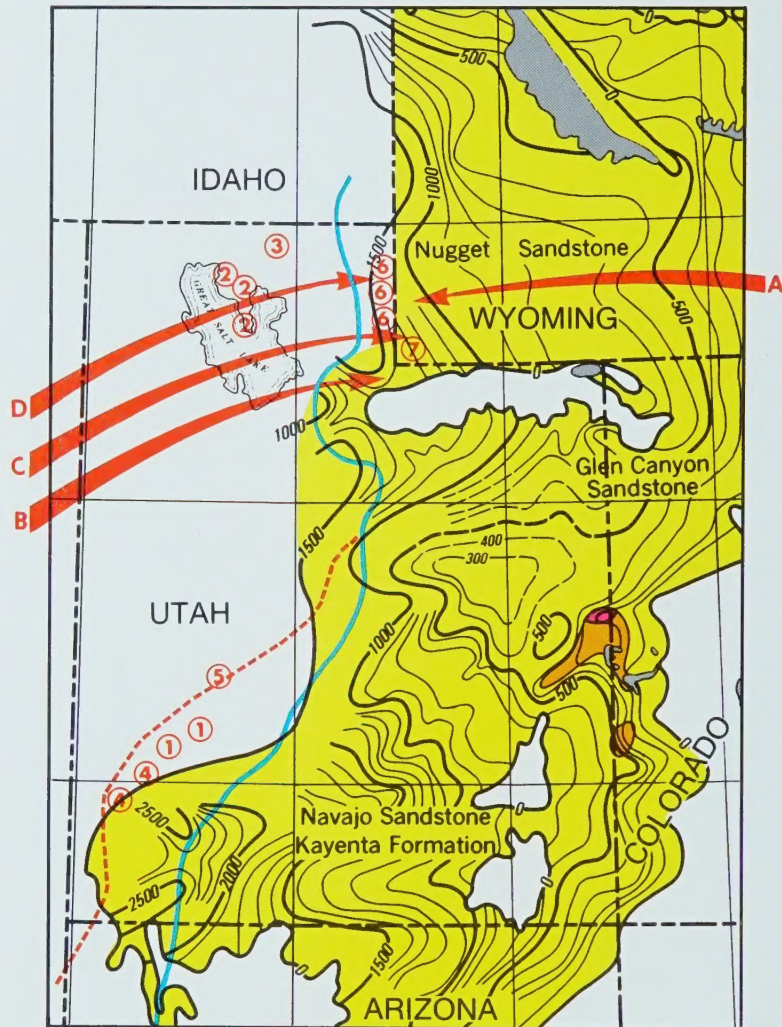
EXPLANATION LITHOFACIES SYMBOLS

	Sandstone
	Shaly sandstone
	Sandy shale
	Precambrian crystalline rocks exposed.

— 500 — Isopach line, thickness in feet. Solid
where generalized from U.S. Geological
Survey Paleotectonic maps; dashed
where extended across deep basins.

— Sevier Orogenic Belt

— Hurricane Wasatch Line



OIL AND GAS EXPLORATION

UTAH (OVERTHRUST BELT)

In 1977, American Quasar Petroleum Company made a significant gas discovery in Rich County: the Hogback Ridge #20-1 (Ramoco 6.88% after payout). This was the second earning well drilled by it pursuant to an option granted in 1975 on 62,250 acres held jointly by Cities Service Company and Ramoco in Rich County. Gas was measured at 22.4 mmcfpd from the Dinwoody formation and 9.9 mmcfpd from the Phosphoria formation. The first field development well, Hogback Ridge #28-1 (Ramoco 8.37%), was abandoned in February 1978 after crossing a steeply dipping thrust fault immediately above the Dinwoody formation. A second development well, the Hogback Ridge #17-1 (Ramoco 9.69%) was abandoned 4,000 feet short of its target depth. Steep formation dips of 80° made it impossible to reach the structure. American Quasar has halted development drilling of the Hogback Ridge field pending a reservoir study. The Hogback Ridge #20-1 went on production in late October and produced 900 mmcf by the end of 1978. The well is expected to pay out in 1979 after which Ramoco will have a working interest of 6.88%.

In November, Houston Oil & Minerals Corporation spudded the Federal #14-3 (Ramoco 4.03%), at Rabbit Creek, Lincoln County, Wyoming to test the Dinwoody and Phosphoria formations. The well was plugged and abandoned after encountering a number of formations with good reservoir quality but lacking a sufficient trap to retain hydrocarbons.

Marathon Oil Company began the Marathon South Eden Canyon #15-1 (Ramoco .3233%) Phosphoria test in the late summer of 1978. This wildcat is approximately 4.5 miles west-northwest of the Hogback Ridge #20-1 discovery well in Rich County. During the month of May 1979 the well was suspended at 18,000 feet without reaching the prospective Phosphoria formation. Numerous strong, uncommercial gas shows were encountered while drilling which created great interest in this test. However drilling problems created by excessively steep dips have caused

Marathon to suspend further drilling until the prospect is re-assessed. Additional seismic surveys are planned to determine whether to re-enter the suspended hole for deepening to the Phosphoria or to drill a new test.

American Quasar began the drilling of its third earning well in Rich County under the option agreement with Ram and Cities Service in October 1978. The Minnow Hill Unit #29-1 (Ramoco 15.5% interest after payout) has a projected total depth of 17,700 feet, to test all formations to the Cambrian. The well is located on a splinter thrust 8 miles west of the major multi-pay zone Whitney Canyon structure. American Quasar is currently drilling below 13,300 feet in the Dinwoody formation.

GREAT BASIN

Ramoco Inc. continues to participate in two geological plays in the Great Basin area of Utah on acreage it acquired from Ram Inc. and acreage acquired recently.

North of Great Salt Lake Ramoco has 17,537 acres under lease in Cache and Box Elder Counties. Industry interest in this acreage increased in 1978 as Amoco drilled two wildcat wells in Great Salt Lake. Both wells were plugged and abandoned after encountering uncommercial but encouraging heavy oil shows. Amoco has since moved north to a third location, offsetting Ramoco acreage to the northeast. Management believes that the area is geologically favourable and is attempting to farm out this acreage.

In southwestern Utah, Ramoco has 225,326 acres under lease in Beaver and Iron Counties. This play involves an area of the Overthrust Belt adjacent to the hingeline separating the Colorado Plateau from the Great Basin. It is believed that the area has received and preserved thick deposits of Navajo Sandstone, an equivalent to the Nugget Sandstone found to be productive at the Pineview field in northeastern Utah. Combined with likely thrusting and subthrusting in the area it is reasonable to expect a repetition of the conditions present in the northeastern Utah and Wyoming overthrust play.

During the past year a number of oil companies have conducted seismic surveys over Ramoco's and adjacent acreage. These surveys are continuing but, as yet, little information has been made available. Leasing trends through the Great Basin are currently being monitored and many new companies are showing interest in this area. Information from certain key wells currently drilling should become known later this year and will have an important bearing on exploration in the Great Basin and on the Ramoco holdings.

Ramoco is currently negotiating a farmout of its Beaver and Iron acreage on a basis similar to the farmout to American Quasar of the Rich County acreage.



MICHIGAN

	Ram Petroleums Inc.				Ramoco Inc.			
	To December 31, 1978				To December 31, 1978			
	Leasehold		Royalty		Leasehold			
	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres		
1. Allegan	—	—	—	—	225	91		
2. Alpena	121	8	—	—	655	456		
3. Antrim	—	—	—	—	7,296	5,035		
4. Benzie	585	37	359	65	643	516		
5. Charlevoix	—	—	—	—	2,304	1,765		
6. Cheboygan	40	22	—	—	799	384		
7. Clinton	—	—	—	—	5,363	2,682		
8. Crawford	495	35	200	19	5,614	4,081		
9. Eaton	40	4	—	—	1,604	576		
10. Grand Traverse	434	61	4,797	817	741	391		
11. Gratiot	3,370	337	—	—	180	18		
12. Hillsdale	1,261	945	—	—	5,369	4,027		
13. Ingham	—	—	—	—	900	205		
14. Kalkaska	1,618	114	1,028	67	180	120		
15. Leelanau	—	—	—	—	953	953		
16. Livingston	240	24	—	—	210	53		
17. Macomb	6,931	742	60	18	399	239		
18. Manistee	441	162	4,960	886	1,440	609		
19. Mason	10	1	399	121	364	233		
20. Montmorency	1,430	286	—	—	249	222		
21. Oakland	2,860	432	61	14	2,224	1,334		
22. Oceana	488	53	—	—	881	430		
23. Osceola	840	84	—	—	882	297		
24. Oscoda	—	—	—	—	2,775	1,453		
25. Otsego	1,934	454	840	11	2,950	935		
26. Ottawa	—	—	—	—	1,625	812		
27. Presque Isle	1,251	130	—	—	734	423		
28. St. Clair	4,237	1,045	396	20	267	200		
29. Tuscola	12,156	1,216	—	—	1,825	622		
30. Wexford	19	2	1,045	214	695	176		
	40,801	6,194	14,145	2,252	50,346	29,338		

Acreage acquired in 1979 to date

A. Jackson	2,394	2,394
B. Lenawee	407	407
C. Washtenaw	3,544	3,544

ONTARIO

Ram Petroleums Limited

To December 31, 1978

31. Elgin	7,850
32. Essex	31,274
33. Kent	7,222
34. Lambton	97,152
35. Middlesex	5,439
	148,937

ONTARIO (MICHIGAN BASIN)

LAMBTON, KENT AND MIDDLESEX COUNTIES

Ram now has 106,468 acres under lease in the Silurian pinnacle reef belt of Lambton and Middlesex Counties where the company completed 140 miles of seismic surveys during the past year.

Of six exploratory tests drilled by Ram during 1978, one discovered an oil-bearing pinnacle reef (Corey East, Enniskillen Township) and one discovered a gas-bearing incipient reef (Dawn Township). There is some evidence that Ontario operators presently have a limited number of good quality, readily drillable seismic prospects in inventory. Over recent years Ram has been concentrating on increasing the number of such good prospects in its inventory. The company will drill at least six pinnacle reef prospects during the next twelve months.

During the year three development wells were drilled. Two of these were located on the margin of the Corey East pinnacle reef and were found to be dry and were abandoned. The third development well drilled in the Cromar Pool (Moore Township) resulted in a gas well early in 1979.

Two exploratory wells were drilled with other companies during the year and both were found to be dry and were abandoned.

As exploration continues in such a mature exploration play as Lambton County, Ram will be drilling some conventional seismic anomalies which present low to medium risk but also an increasing number of anomalies classed as unconventional which will present higher risk. Nevertheless, the economics of drilling, and the potential for discovering excellent oil and gas production close to markets, demand that the company test every possibility within its land inventory in the pinnacle reef belt.

ESSEX, KENT AND ELGIN COUNTIES

At present Ram has 42,697 acres under lease in Essex, Kent and Elgin Counties where prospects are good for finding hydrocarbon accumulations in Trenton carbonate and Cambrian sandstone reservoirs. Ram did not drill any exploratory wells on this land during the year. A small amount of experimental seismic was run at year end and more seismic evaluation is planned for 1979. Drilling of one or more exploratory tests is anticipated during 1979, probably through a farmout arrangement. Ram is attempting to farmout the major portion of landholdings in this play in order to expedite land evaluation and at the same time reduce rental burdens.

MICHIGAN (MICHIGAN BASIN)

Ram Petroleum Inc., a wholly-owned subsidiary, and Ramoco Inc., an affiliated corporation, have leasehold interests in 41,877 net acres in Michigan.

In the northern Michigan pinnacle reef trend three exploratory tests in which Ram had interests varying from 10% to 25% were drilled dry and were abandoned. Three pool extension wells were drilled, two of which were dry and subsequently abandoned, and one was completed as an oil producer. The producer, the Delta Puthuff-Zinn-Schrader 2-23A, is the second Ramoco well in the reef.

In southern Michigan, one exploratory test was drilled dry and was abandoned.

Early in 1979, Ram Inc. participated for a 12.5% working interest in a pinnacle reef gas discovery on the north Michigan pinnacle reef trend. This gas and condensate well, the NMECO Rebman 2-16A, is presently being completed and is expected to go on stream in July 1979.

Ramoco Inc. and Ram Inc. are attempting to farmout the majority of their holdings in the Michigan pinnacle reef play in order to speed up evaluation. Land holdings selected for Trenton exploration are currently being evaluated and new seismic surveys will be run in late spring 1979.

ROYALTY INTERESTS

Ram Inc. owns varying royalty interests in 2,252 net acres in the northern Michigan pinnacle reef trend, as of April 30, 1979, 54 wells were on production out of 57 in which Ram Inc. owns a royalty interest. All but 9 of these wells are operated by Shell Oil Company.

NEW PRODUCTION

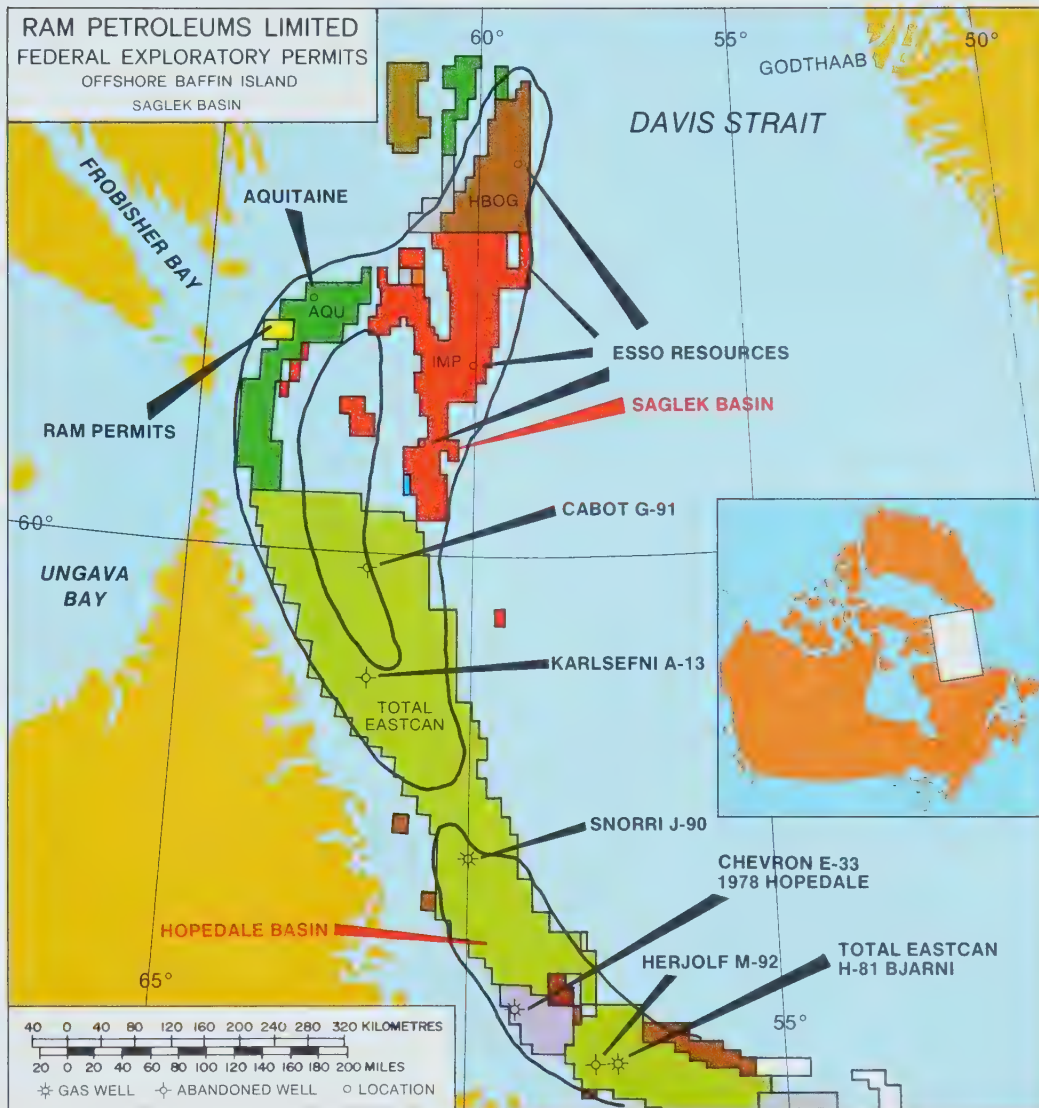
	PUTHUFF-ZINN-SCHRADER 2-23A	NMECO REBMAN ET AL 2-16A
Location:		
Township	Dover	Cleon
County	Otsego	Manistee
Net Revenue Interest	.192218	.109375
Number of Wells	2 wells in reef	2 wells in reef (Ram Inc. interest only in Rebman 2-16A)
Producing Wells	2	2
Oil in Place	1.219 million barrels recoverable (2 wells)	Not established
Gas in Place	Not established	Not established
Production Start	July 1979	July 1979
Oil (bopd)	175	40
Gas (mcfpd)	150	1500

OFFSHORE BAFFIN ISLAND (SAGLEK BASIN)

Ram has 120,592 acres remaining from its original inventory of 1,087,410 acres in Cumberland Sound. The permits are located on the northwest side of a large geological downwarping known as the Saglek Basin situated on the northern portion of the Labrador Shelf. This is a very prospective basin where sediments with a thickness of as much as 40,000 feet are expected to contain large reserves of hydrocarbons. Industry considers the Labrador Shelf to have potential, equivalent to that of the North Sea. Known faulting and voluminous sediment deposition have created geological prospects that have the potential for very large reserves and high well deliverabilities required for economic development in the Arctic area.

In 1977, Ram, working with a major oil company, reprocessed 160 miles of seismic data. This data revealed several interesting structures, one of which is almost entirely on Ram's holdings. An additional 50 mile seismic program over these structures was contracted for in the summer of 1978, but severe ice conditions forced rescheduling of this survey to the summer of 1979. It is hoped that this survey will further define sufficient closure on the structures to make them attractive drilling prospects.

The first offshore drilling activity north of 60° latitude in the Eastern Arctic is expected this year. Esso Resources plans to drill a well this summer less than 250 km. northeast of Ram's permits and Aquitaine plans a 4,700 meter test less than 40 km. to the northeast of Ram's permits. The Ram permits are located on the west flank of the Saglek Basin, slightly up-dip from the Aquitaine well location. The structures on the Ram permits are adjacent to a postulated ancient river system which fed sediments into the Saglek Basin from a bordering land mass. This factor enhances the possibility that the structures on the Ram permits have received favourable clastic sedimentation for good reservoir development and hydrocarbon entrapment in an up-dip position from supposed source beds deep in the basin.



ARCTIC ISLANDS (SVERDRUP BASIN)

Ram has 179,995 acres of federal exploratory oil and gas permits in the Sverdrup Basin of the Canadian Arctic Islands. These permits are favourably located with respect to known geological structures and recent gas discoveries. Industry emphasis is shifting from onshore to offshore exploration in search of an estimated 125 trillion cubic feet of gas which may be in place in the Basin. Only 15 holes out of a total 131 drilled in the Arctic Islands have been drilled offshore. Industry has identified many large offshore structures. One of these structures was tested recently in the Panarctic et al Whitefish H-63 hole and contains significant reserves of natural gas. This discovery will provide additional stimulus to pipeline proposals for the Arctic Islands. Two more offshore wildcat tests are planned for 1979.

In 1972 Ram farmed out two permits consisting of 107,504 acres located offshore, southwest of Amund Ringnes Island, to Imperial Oil. Imperial can earn a 25% working interest in this acreage and has the option of increasing its interest to 100% subject to a 20% net profits interest to Ram by drilling a test well.

Ram farmed out 72,491 acres on Axel Heiberg Island to Forest Oil of Canada Limited. Forest can earn a 25% working interest in the two permits and may increase its interest to 75% by completing a well on each of the permits. Ram may convert its working interest to a 7½% gross overriding royalty. The acreage is situated onshore on Axel Heiberg in an area regarded by industry as one of the more prospective portions of the Sverdrup Basin.

OFFSHORE NOVA SCOTIA (SCOTIA SHELF)

Ram continues to maintain its provincial exploratory permits of 666,970 acres on the Scotian Shelf. Two permits are favourably located near the Shell Primrose N-50 gas discovery of 1972 east of Sable Island. A gas discovery by Petrocan Mobil et al near Sable Island in May 1979 may push proven reserves above pipeline threshold volumes, and make the Sable Island area gas discoveries commercial. However, in recent years industry generally has abandoned exploration on the salt-related structures of the Scotian Shelf and has directed its interest toward offshore Labrador and Baffin Island. Geologic structures believed to exist off Baffin Island dwarf the Scotian Shelf structures in area and postulated reservoir quality. By agreement with the Government of Nova Scotia the work requirements on Ram permits are under a moratorium until federal-provincial disputes involving the acreage are settled.

MINING

URANIUM

By drilling a deep hole late in 1978 Ram increased its interest in a 113 claim block in Kamichisittit and Albanel Townships, Sault Ste. Marie Mining Division which is held by Ram, Raylloyd Mines et al. The best sections encountered assayed .7 of one pound U_3O_8 per ton over 10.25 feet and .8 of one pound U_3O_8 per ton over 6.75 feet. Although the uranium-bearing conglomerates are not of commercial grade, the results of assays and the character of the beds suggest that the drill hole could be close to a commercial deposit. The company is negotiating to farm out this holding in return for a commitment for another deep test.

COAL AND LIGNITE

In southern Saskatchewan Ram holds coal leases on 2,880 acres favourably located for shipments to markets in eastern Canada. However the provincial government has not yet issued regulations governing the export of coal from Saskatchewan. Ram also has 10,400 acres under coal lease in the South Manville area of Alberta.

TREMOLITE

Ram retains a seven-eighths interest in two mining leases covering a deposit of tremolite at Palmerston Township, Ontario.

In the summer of 1978 about seventy tons of tremolite was removed and custom ground to provide additional test material to be used as an additive for asphalt road-topping. The Borough of North York again laid a substantial amount of tremolite asphalt topping and carried out tests to determine how well the material laid in the summer of 1977 had fared. All tests confirmed that the tremolite asphalt topping had stood up very well and had met all expectations.

During the year Ram commenced purchasing equipment for a small mill which is planned to be built in 1979. The mill will grind tremolite ore near the mine site for shipment to purchasers.

AUDITORS' REPORT

To the Shareholders of
Ram Petroleum Limited:

We have examined the consolidated balance sheet of Ram Petroleum Limited as at December 31, 1978 and the consolidated statements of loss, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The accompanying financial statements have been prepared in conformity with principles of accounting which contemplate continuation of the company as a going concern. The financial statements reflect a working capital deficit of \$4,300,861. In order to continue operations, the company may require additional working capital which may be obtained through the issuance of additional permanent capital and/or additional financing.

The recovery of development and exploration expenses capitalized is dependent upon various projects, the success of which cannot be forecast at this time.

The recovery of advances to Ramoco Inc. totalling \$3,467,820 is dependent upon the successful development of properties owned by Ramoco Inc.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the matters described in the preceding paragraphs, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978, and the consolidated results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario.
February 26, 1979.

MacGILLIVRAY & CO.
Chartered Accountants

RAM PETROLEUMS LIMITED

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1978

ASSETS

	1978	1977
Current		
Cash	\$ 1,579	\$ 6,870
Accounts receivable	270,096	210,017
Marketable securities (Note 2)	121,521	288,536
Prepaid expenses	68,391	11,118
Due from Ramoco Inc	207,711	967,151
	<u>669,298</u>	<u>1,483,692</u>
 Investments and Advances (Note 3)	 3,601,834	 1,203,892
 Capital Assets (Note 5)	 4,955,007	 4,270,690
	<u><u>\$9,226,139</u></u>	<u><u>\$6,958,274</u></u>

Approved by the Board

R. J. OPEKAR, Director

H. R. BARCLAY, Director

LIABILITIES

Current

Bank indebtedness (Note 6)	\$4,180,609	\$2,420,279
Accounts payable and accrued liabilities	358,023	355,389
Due to Ramoco Inc.	431,527	—

Deferred Income Taxes	4,970,159	2,775,668
	284,640	—

Minority Interest in Subsidiary Company	35,635	36,141
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	5,290,434	2,811,809
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SHAREHOLDERS' EQUITY

Capital Stock (Note 7)	1,923,519	1,861,457
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Retained Earnings	2,012,186	2,285,008
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	3,935,705	4,146,465
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	\$9,226,139	\$6,958,274
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RAM PETROLEUMS LIMITED

CONSOLIDATED STATEMENT OF LOSS

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
Income		
Royalties	\$ 661,939	\$ 508,670
Gas sales	525,740	249,673
Oil sales	1,195,437	828,671
	<u>2,383,116</u>	<u>1,587,014</u>
Less: Direct expenses and royalties	240,405	179,966
	<u>2,142,711</u>	<u>1,407,048</u>
Interest, dividends and consulting fees	199,142	120,577
	<u>2,341,853</u>	<u>1,527,625</u>
Exploration and Development Expenses	1,671,401	2,080,568
Administrative and General Expenses	741,651	508,943
	<u>2,413,052</u>	<u>2,589,511</u>
Loss Before Undernoted Items	71,199	1,061,886
Other Expenses (Income)		
Gain on sale of marketable securities	(83,017)	—
Adjustment in carrying value of marketable securities	—	53,642
	<u>(83,017)</u>	<u>53,642</u>
Earnings (Loss) Before Extraordinary Item	11,818	(1,115,528)
Minority interest in income of subsidiary	—	1,574
Earnings (Loss) Before Income Taxes and Extraordinary Item	<u>11,818</u>	<u>(1,117,102)</u>
Income Taxes	486,260	—
Earnings (Loss) Before Extraordinary and Undernoted Items	(474,442)	(1,117,102)
Reduction of income taxes through application of accumulated losses	201,620	—
Write down of investment (in shares and advances in Mextor Minerals Limited) due to lack of support equity	—	(648,322)
	<u>201,620</u>	<u>(648,322)</u>
Earnings (Loss) for the Year	<u>(\$ 272,822)</u>	<u>(\$1,765,424)</u>
Earnings (Loss) Per Share		
Before extraordinary item	(\$.13)	(\$.31)
After extraordinary item	<u>(\$.08)</u>	<u>(\$.49)</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
Retained Earnings, Beginning of Year		
As previously reported	\$2,285,008	\$4,517,084
Adjustment of prior years' income	—	466,652
As restated	2,285,008	4,050,432
Net earnings (loss) for the year	(272,822)	(1,765,424)
Retained Earnings, End of Year	\$2,012,186	\$2,285,008

CONSOLIDATED SCHEDULE OF EXPLORATION AND DEVELOPMENT AND ADMINISTRATIVE AND GENERAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
Exploration and Development Expenses		
Abandoned well costs, leases and mining claims	\$ 372,847	\$ 532,684
Oil, gas and mining consulting fees	3,699	32,202
Lease payments	493,852	389,643
Exploration	605,960	896,868
Amortization	195,043	229,171
	\$1,671,401	\$2,080,568
Administrative and General Expenses		
District Office — Personnel	\$ 221,435	\$ 127,704
— Premises	13,778	10,084
— Office expense	26,931	20,112
Head Office — Personnel	174,035	139,947
— Premises	23,841	26,840
— Office expense	99,117	83,262
Interest and bank charges	364,388	91,722
	923,525	499,671
Loss (Gain) on foreign exchange	(181,874)	9,272
	\$ 741,651	\$ 508,943

RAM PETROLEUMS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
Working Capital Derived from		
Earnings before provision for items not requiring an outlay of funds	\$ 206,355	\$ —
Proceeds from sale of capital stock	62,062	52,218
Decrease in long-term investments	—	38,503
	<u>268,417</u>	<u>90,721</u>
Working Capital Applied to		
Loss before provision for items not requiring an outlay of funds	—	82,577
Increase in long-term investments	2,397,942	—
Purchase of capital assets	879,360	1,677,605
	<u>3,277,302</u>	<u>1,760,182</u>
Decrease in Working Capital	<u>3,008,885</u>	<u>1,669,461</u>
Working capital (deficit), beginning of year	(1,291,976)	377,485
Working Capital Deficit, End of Year	<u>\$4,300,861</u>	<u>\$1,291,976</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. Accounting Policies

(a) Basis of Consolidation

The accompanying financial statements consolidate the accounts of the company and the following subsidiaries.

	Percentage Owned
Ram Petroleum Inc.	100.0%
Taman Resources Limited	61.4%

Mextor Minerals Limited is a 91% owned subsidiary whose only asset is an investment in a Mexican company, Compania Minera de Pinabete S.A. Pinabete is in the process of liquidation and it would appear that Mextor will not recover any of the advances or amounts invested in shares. Accordingly, Mextor Minerals Limited has not been included in these consolidated financial statements.

(b) Foreign Exchange Conversion

Capital assets are converted at rates prevailing at the date of acquisition. All other assets and liabilities are converted at the exchange rate \$1 Canadian = \$.843 U.S., the rate in effect at December 31, 1978.

(c) Oil and Gas Leases

The initial cost of a lease is recorded as an asset. These costs will be amortized on a unit of production basis, or will be written off in the year the leases are abandoned or proven to have no value. The annual cost of maintaining leases over and above initial acquisition costs are charged to operations as incurred.

(d) Development Costs Deferred

All costs incurred subsequent to the commencement of drilling are capitalized as development costs. These costs will be amortized on a unit of production basis or will be written off in the year the leases are abandoned or proven to have no value.

(e) Equipment

Equipment at the well heads is being amortized on a unit of production basis. Other equipment is amortized at the rate of 20% per annum.

2. Marketable Securities

Marketable securities are valued at the lower of cost or market value.

No. of Shares	Name	Carrying Value	Market Value	
			1978	1977
10,000	Merrill Lynch & Co. Inc.	\$ —	\$ —	\$165,527
25,500	Yellowknife Bear Mines Limited	119,247	156,188	119,850
	Other	2,274	3,515	3,850
		<u>\$121,521</u>	<u>\$159,703</u>	<u>\$289,227</u>

3. Investments and Advances

Ramoco Inc., debenture receivable, 8%, repayable April 30, 1984	\$2,372,000
Ramoco Inc., debenture receivable, 6%, repayable in three annual instalments commencing April 30, 1984	1,095,820
Mextor Minerals Limited	1
Government of Canada Bonds	34,276
Investment in land	99,737
	<u>\$3,601,834</u>

4. Debentures

In 1976 Ram Petroleum Inc. sold at their fair market value certain assets to Ramoco Inc. and took back a debenture in the amount of \$1,095,820. The debenture bears interest at the rate of 6% per annum calculated semi-annually and is repayable in three annual instalments commencing April 30, 1984.

Pursuant to a loan agreement dated January 31, 1977 Ram Petroleum Inc. had advanced \$1,804,012 to Ramoco up to December 31, 1978. On that date Ram Petroleum Inc. accepted a debenture in the amount of \$2,372,000 in satisfaction of the existing debt and an additional \$431,527. The debenture bears interest at a rate of 8% per annum calculated semi-annually and is to be repaid on April 30, 1984.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

Debentures (continued)

These debentures are secured by floating charges on all of the present and future assets of Ramoco Inc. The collectibility of these debentures is dependent upon the future productivity of Ramoco's assets.

5 Capital Assets

	Cost	Accumulated Amortization and Depreciation	Net Book Value	
			1978	1977
Interest in oil and gas leases	\$ 991,102	\$ 13,935	\$ 977,167	\$ 701,072
Mineral rights	793,144	274,726	518,418	594,162
Equipment	659,113	120,423	538,690	320,816
Development costs deferred	3,393,179	472,447	2,920,732	2,654,640
	<u>\$5,836,538</u>	<u>\$881,531</u>	<u>\$4,955,007</u>	<u>\$4,270,690</u>

6 Bank Indebtedness

The bank indebtedness is secured as follows:

- (a) General assignment of book debts.
- (b) An assignment of certain oil and gas rights under section 82 of the Bank Act

7 Capital Stock

	1978	1977
Authorized		
150,000 6% non-cumulative preference shares, redeemable, par value \$1		
8,000,000 common shares, par value \$.25		
Issued		
3,614,066 common shares (1977 — 3,613,513)	\$ 903,517	\$ 903,378
Premium on issue of shares less discount	1,020,002	1,003,276
	<u>1,923,519</u>	<u>1,906,654</u>
Less (1977 — 16,693) common shares, at cost	—	45,197
	<u>\$1,923,519</u>	<u>\$1,861,457</u>

8 Stock Options

During the year, the company transferred 16,693 shares, previously purchased on the open market and issued a further 533 shares to employees who had exercised stock options during the year. The shares were transferred for a total consideration of \$62,062.

The increase in the premium on issued shares represents the difference between the proceeds generated by the options exercised during the year and the cost of those shares.

There are outstanding options to purchase shares of the company at 90% of the fair market value of the shares on the day the option was granted. The option must be exercised within three years from the date the option was granted. There follows a summary of outstanding options as at December 31, 1978.

Number of Shares	Fiscal Year Option Expires
2,950	1979
23,877	1980
26,500	1981
<u>53,327</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

In addition to the foregoing the company has set aside 127,500 shares for a key employees' stock option plan. Options will be granted over a seven year period.

9. **Distribution to Shareholders**

The distribution to shareholders of all the issued shares in Ramoco Inc. was approved by the shareholders of Ram Petroleums Limited on June 17, 1976. These shares are held in trust for the company's shareholders by The Metropolitan Trust Company until the final distribution of the share certificates upon receipt of all the required regulatory approvals. The distribution will be made to the shareholders of record of Ram Petroleums Limited on the seventh business day following receipt of the last required regulatory approval. If approval is not obtained, Ramoco Inc. will become a wholly-owned subsidiary of the company.

10. **Statutory Information**

The aggregate direct remuneration paid or payable to directors and senior officers as defined by The Business Corporations Act (Ontario) amounted to \$199,408 (1977 — \$123,834).

BALANCE SHEET AS AT DECEMBER 31, 1978

(Expressed in United States Dollars)

ASSETS**Current**

	1978	1977
Cash	\$ 2,552	\$ 61
Advances	10,774	18,500
Accounts receivable — trade	80,864	—
Accounts receivable — affiliated companies (Note 6)	363,550	—
	<u>457,740</u>	<u>18,561</u>

Capital Assets (Note 3)	\$1,051,886	\$1,263,722
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Other Assets

United States Treasury Bonds	13,000	13,000
Organization costs	2,456	3,548
	<u>15,456</u>	<u>16,548</u>
	<u>\$1,525,082</u>	<u>\$1,298,831</u>

LIABILITIES**Current**

Accounts payable and accrued liabilities	\$ 129,149	\$ 97,557
Accounts payable, affiliated companies (Note 6)	—	814,889
Accrued debenture interest payable (Note 4)	175,136	109,387
	<u>\$ 304,285</u>	<u>\$1,021,833</u>

Long-Term Debt

Debentures payable (Note 4)	<u>3,095,820</u>	<u>1,095,820</u>
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SHAREHOLDERS' DEFICIT

Capital Stock (Note 5)	5,458	5,458
Deficit	1,880,481	824,280
	<u>1,875,023</u>	<u>818,822</u>

Approved by the Board

R. J. OPEKAR, Director

H. R. BARCLAY, Director

CERTIFICATE OF CHARTERED ACCOUNTANTS

We have examined the balance sheet of Ramoco Inc. as at December 31, 1978 and the statements of loss and deficit and changes in financial position for the year ended December 31, 1978. Our examination of the financial statements of Ramoco Inc. was made in accordance with generally accepted auditing standards and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

The recovery of exploration and development expenses capitalized is dependent upon various projects, the success of which cannot be forecast at this time. In addition, the funding required to undertake these projects is dependent upon the company successfully reorganizing its financial affairs and/or obtaining additional financing.

We are unable to determine whether or not the company will be able to obtain the necessary funds to develop its properties.

In our opinion, subject to the matters referred to in the preceding paragraphs, the accompanying balance sheet and statement of loss and deficit have been prepared in conformity with the basis of accounting described in Note 1 consistently applied and present fairly the financial position of the company as at December 31, 1978 and the results of its operations for the year ended on that date.

Toronto, Ontario,
February 26, 1979.

MacGILLIVRAY & CO.
Chartered Accountants

STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1978

(Expressed in United States Dollars)

	1978	1977
Revenue		
Gas revenue	\$ 238,327	\$ —
Deduct: Production expenses	7,358	—
	230,969	—
Deduct: Amortization of leases and deferred development costs	25,914	—
	205,055	—
Interest	512	640
Profit on sale of lease	—	6,250
	205,567	6,890
Exploration and Development Expenses		
Deferred development costs abandoned	503,106	22,165
Leases abandoned	256,758	105,677
General exploration	58,722	48,173
Lease rentals	222,060	275,637
	1,040,646	451,652
Operating Expenses		
Administrative	57,182	73,581
Amortization and depreciation	1,092	1,269
Field	28,645	15,673
Interest (Note 7)	138,686	95,777
	225,605	186,300
Gain (loss) on foreign exchange	4,483	(134)
	221,122	186,434
	1,261,768	638,086
Net Loss for the Year	1,056,201	631,196
Deficit, beginning of year	824,280	193,084
Deficit, End of Year	\$ 1,880,481	\$ 824,280

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1978

(Expressed in United States Dollars)

	1978	1977
Working Capital Derived From		
Issuance of debenture payable	\$ 2,000,000	\$ —
Working Capital Applied to		
Operations	1,056,201	631,196
Items not requiring an outlay of working capital		
Abandoned leases	256,758	105,677
Deferred development costs	503,106	22,165
Amortization and depreciation	27,006	1,269
	269,331	502,085
Purchase of equipment	—	886
Acquisition of interest in gas and oil leases	121,482	48,528
Deferred development costs	452,460	225,616
	843,273	777,115
Increase (Decrease) in Working Capital	1,156,727	(777,115)
Working capital deficit, beginning of year	1,003,272	226,157
Working Capital (Deficit), End of Year	\$ 153,455	(\$1,003,272)

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. Significant Accounting Policies

(a) Interest in Oil and Gas Leases

The initial cost of a lease is recorded as an asset. These costs will be amortized on a unit of production basis, or will be written off in the year the leases are abandoned or proven to have no value. The annual cost of maintaining leases over and above initial acquisition cost are charged to operations as incurred.

(b) Development Costs Deferred

All costs incurred subsequent to the commencement of drilling are capitalized as development costs. These costs will be amortized on a unit of production basis, or will be written off in the year the leases are abandoned or proven to have no value.

(c) Equipment

Equipment is being amortized at the rate of 20% per annum.

(d) Organization Costs

The costs are being amortized over a five year period.

(e) Foreign Exchange

All amounts in these financial statements are expressed in United States dollars. Revenue and expense items have been translated at the average rate in effect throughout the year, and current assets and current liabilities have been translated at the exchange rate in effect at the year end. Exchange gains and losses are reflected in the current year's operations.

2. Organization

The Corporation was formed April 5, 1976 under the General Corporation Law of the State of Delaware. On May 5, 1976 the Corporation issued 1,806,757 shares for a consideration of \$5,458 in settlement of organization expenses paid by Ram Petroleum Limited. The issued shares are held in trust for the shareholders of Ram Petroleum Limited and will be distributed to the shareholders of record of Ram Petroleum Limited on the seventh business day following final regulatory approvals of the Corporation's prospectus.

3. Capital Assets

	Cost	Accumulated Amortization and Depreciation	Net Book Value	
			1978	1977
Interest in oil and gas leases	\$ 916,714	\$ 868	\$ 915,846	\$1,051,990
Development costs deferred	160,377	25,046	135,331	211,023
Equipment	886	177	709	709
	<u>\$1,077,977</u>	<u>\$ 26,091</u>	<u>\$1,051,886</u>	<u>\$1,263,722</u>

4. Debentures Payable

In 1976 the Corporation acquired certain non-producing oil and gas leases from Ram Petroleum Inc. These leases were acquired at their fair market value as determined by an independent appraiser. In consideration for these leases the company issued a debenture payable which bears interest at the rate of 6% per annum calculated semi-annually and is repayable in three annual instalments commencing April 30, 1984.

From its incorporation to December 31, 1978 the operating expenses of the Corporation were paid by Ram Petroleum Inc. pursuant to a loan agreement dated January 31, 1977. On December 31, 1978 the Corporation issued a \$2,000,000 debenture to Ram Petroleum Inc., \$1,644,808 of which represented satisfaction of the debt owing for these earlier operating advances. The debenture payable bears interest at the rate of 8% per annum calculated half-yearly and is to be repaid on April 30, 1984.

All of the Corporation's present and future assets are pledged under these debentures payable.

5. Capital Stock

	1978	1977
Authorized		
2,000,000 Common shares no par value		
Issued		
1,806,757 Common shares	<u>\$ 5,458</u>	<u>\$ 5,458</u>

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1978

6. Accounts Receivable (Payable), Affiliated Companies

	1978	1977
Ram Petroleum Inc.	\$355,192	(\$760,097)
Ram Petroleum Limited	8,358	(54,792)
	<u>\$363,550</u>	<u>(\$814,889)</u>

7. Interest Expense

All amounts were paid to or accrued to Ram Petroleum Inc. The expense is as follows:

	1978	1977
Debt interest	\$ 65,749	\$ 65,749
Interest on advances	72,937	30,028
	<u>\$138,686</u>	<u>\$ 95,777</u>

8. Comparative Figures

Certain 1977 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1978.

